DECEMBER 19, 1983 THREE DOLLARS

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# Forbes

## REAL ESTATE SYNDICATION
## WHEN WILL THE BUBBLE BURST?

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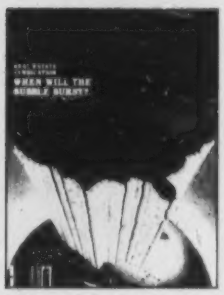


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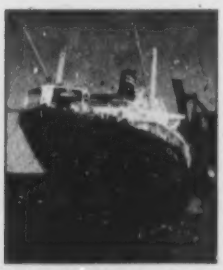

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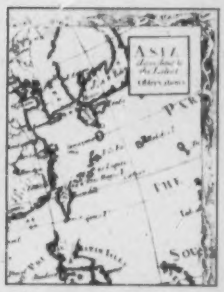


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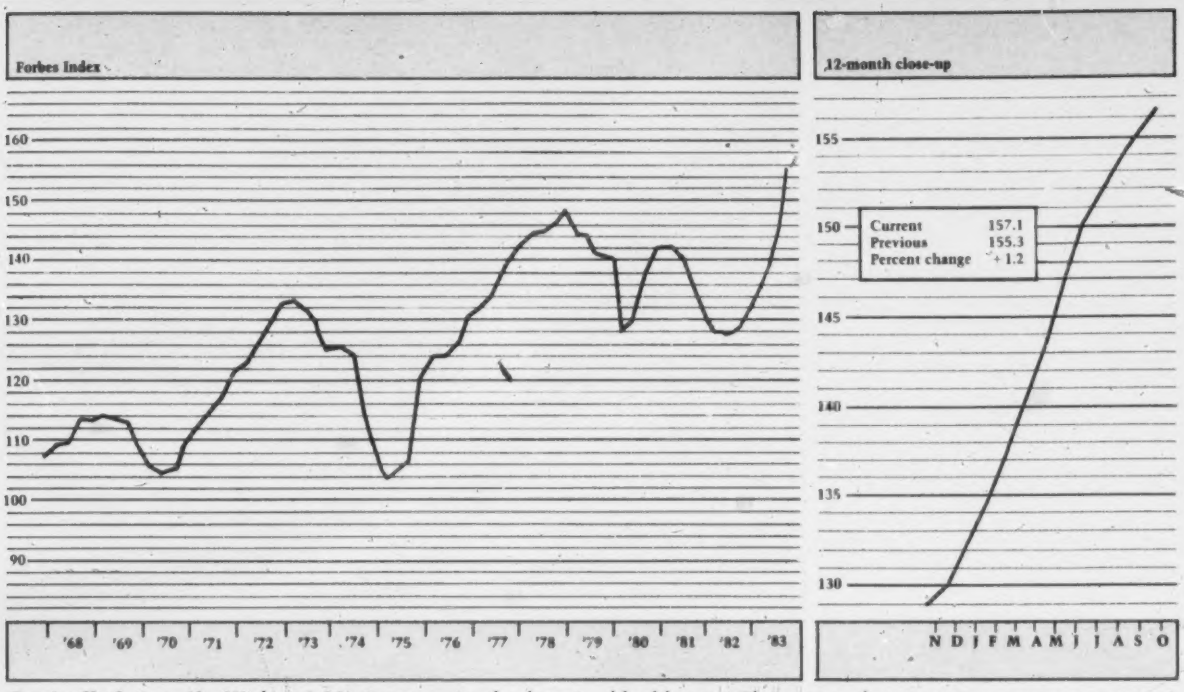
# The Forbes Index



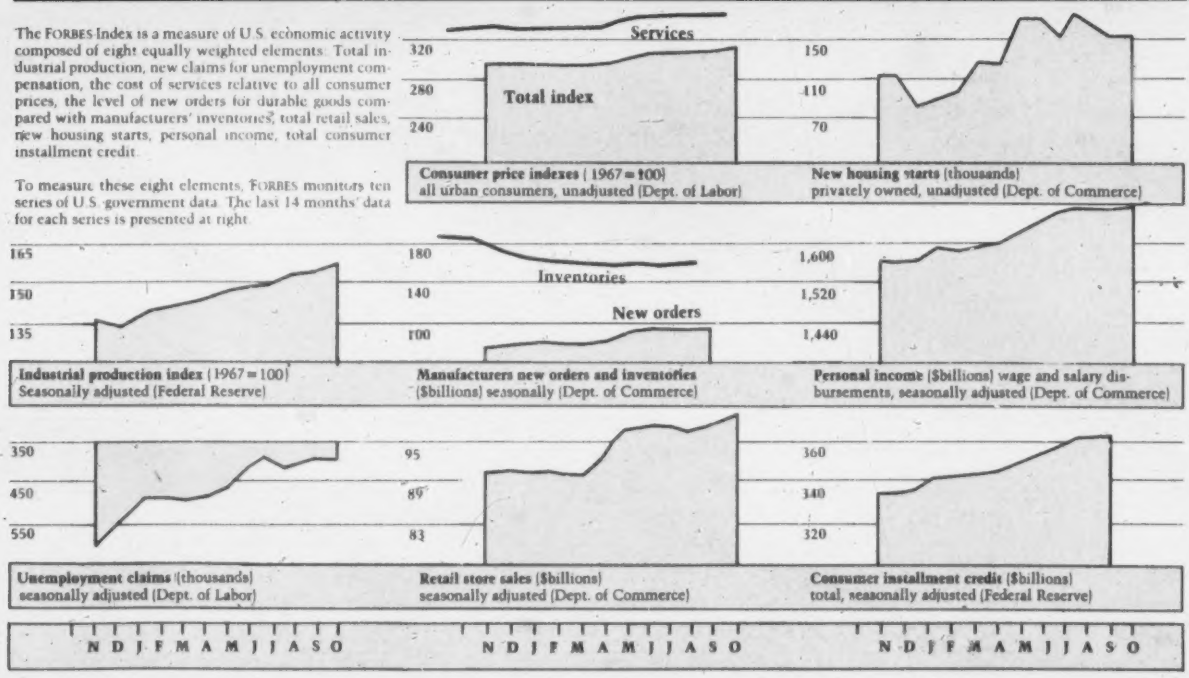

**Controlled growth.** With a 1.2% increase in the latest reporting period, the Forbes Index indicates that the economy is moving ahead but not overheating. The biggest month-to-month gains came in personal income and retail sales, up 1.2% and 1.1%, respectively. Will the holiday season at the checkout counter be as strong as some experts are expecting? While retail sales were 10.2% higher than a year ago, personal income is up only 8.9%. For a blockbuster Christmas, that means consumers must either dip into savings or take on more debt.

While a strong recovery in capital goods has yet to materialize, industrial production rose an encouraging 0.8% from the previous month. An advance in the consumer price index of less than 0.3%, meanwhile, translates into a 3.2% annualized rate of inflation. But there is bad news, too: a 2.6% gain in new unemployment claims.

## The Forbes Index Components

The FORBES Index is a measure of U.S. economic activity composed of eight equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, total consumer installment credit.

To measure these eight elements, FORBES monitors ten series of U.S. government data. The last 14 months' data for each series is presented at right.



*Forget the ground floor. In leveraged buyouts everyone wants to get in on the mezzanine. Lots of action there.*

# Where the smart money wants to go

**By Priscilla S. Meyer and Robert McGough**

EVER WONDER WHY there are so many leveraged buyouts these days? Sure, a lot of businesses are better run independently by owner-managers than by giant public corporations. And there's the fact—well expressed by FORBES columnist Tom Murphy *(Oct. 24)*—that a lot of the LBOs are just being fattened up for a run at the new issues market. But follow the money—and there's plenty of money in this business—and you discover what Wall Street cheerfully calls "mezzanine financing."

The mezzanine may not be the ground floor, but in some senses it's an even better place to get in on the leveraged buyout game. To understand what the mezzanine is, it is necessary to understand how these deals are structured. On the ground floor, of course, is the manager of the company. He gets a nice chunk of the equity, paid for mostly with the promise of hard work. On the second floor are the bankers and insurance companies that lend the money to pay for the leveraged buyout.

There's something for the people on every level. The chap on the ground floor gets a chance to be his own boss and to get rich. The second-floor lenders, meanwhile, charge interest rates that are up to 3 percentage points over prime. They also benefit from "point" equivalents, upfront charges, prepayment penalties and equity options. The security, what's more, isn't deep gas or Third World dreams, but plain old corporate assets—stuff a creditor can actually touch.

Most LBOs, however, need something else to make them go. That's where the mezzanine comes in. Corporate managers, the guys on the ground floor, typically make token capital contributions. They kick in perhaps $2 million in a $180 million deal, a mere 1%. But the banks and insurance companies want more than $2 million in protection; they want $30 million, say. So, more equity is needed—the so-called mezzanine level. It is usually senior to the tiny slice of management equity and takes the form either of preferred stock or subordinated debt.

Mezzanine lenders are nominally investment bankers. But the real money comes from wealthy investors, venture capital pools or pension funds. They usually wind up with between 20% and 70% of total equity—which they hope to be able to sell off later to the public.

As long as speculators have an appetite for new issues—even new issues of old businesses—the profits on the mezzanine can be fat indeed. William Simon's $66 million killing in Gibson Greetings shows the potential in LBOs. "It's got to the point," says an investment banker, "that if a guy

**Selling a piece of the pie**

**Since 1978 these 16 corporate divisions have been acquired through leveraged buyouts.**

| Original owner | Division sold | Buyout originator | Price (millions) |
|---|---|---|---|
| AMF | Harley-Davidson | management | $ 75 |
| Allied | Converse | management | 100 |
| Anchor Hocking | Anchor Glass Container | Wesray | 65 |
| Beatrice Foods | All-American Bottling | Forstmann Little | 105 |
| Bendix | American Forest Products | Kohlberg, Kravis | 435 |
| Continental Group | Teepak | Hillside Capital | 105 |
| Dart & Kraft | Thatcher Glass | Dominick Intl | 140 |
| Diamond Intl | Heekin Can | Wesray | 80 |
| FMC | PT Components | Kohlberg, Kravis | 125 |
| Foremost-McKesson | Foremost Dairies | management | 65 |
| Gulf & Western | New Jersey Zinc | management | 50 |
| Gulf & Western | Consolidated Cigar | management | 120 |
| National Steel | Weirton Steel | employees and Lazard Frères | 385 |
| Owens-Illinois | Lily-Tulip | Kohlberg, Kravis | 150 |
| RCA | Gibson Greetings | Wesray | 80 |
| Revlon | Alford Industries | Bear, Stearns | 75 |

walks in here with $2 million wanting some ground-level equity in an LBO, I tell him to go away. I don't need him. There's plenty of money walking around."

What's appealing about LBOs is that they don't require fancy products or brilliant growth prospects. "We're after dull and ugly companies," explains Gilbert Butler, a former Morgan Guaranty vice president who now heads Butler Capital Corp. His pride and joy is Hygiene Industries, the nation's largest shower-curtain maker, which Butler Capital helped buy from Nabisco in 1982.

This was a $28.5 million deal, arranged by First Boston. Butler provided $7 million in mezzanine finance, in return for preferred stock and subordinated debt. Along with that comes roughly 30% of the company's equity. But Butler gets even more. He earns a juicy 17% annually on his money and has three attractive options: He can sell his Hygiene shares to the public, to management or to an outside investor.

No wonder everyone now wants to do mezzanine financing. A client of Kohlberg, Kravis, Roberts & Co., a New York firm, for example, claims to have earned a 700% return on the buyout and subsequent public offering of Norris Industries. Kohlberg, Kravis now is raising $1 billion to do even more LBO deals, and much of that money, no doubt, will be put into mezzanine financing. Merrill Lynch, meanwhile, is in the mezzanine business, as is Citicorp; Morgan Stanley is about to enter. Narragansett Capital, a $113 million closed-end fund that trades over-the-counter, also provides capital for leveraged buyouts. Over the past two years, share prices have gone up 140%.

It's the old story. The profit potential of leveraged buyouts is so good that the dollars are starting to chase the deals. There are already telltale signs of trouble. Houdaille Industries, for example, the Fort Lauderdale-based machinery company that was bought out in 1979 in a transaction handled by Kohlberg, Kravis, is reportedly having difficulty earning enough money to justify a return to the public market. Then there is Brentano's. In 1981 managers bought this bookstore chain from Macmillan. Within a year Brentano's filed for protection from its creditors.

So the leveraged buyout phenomenon looks like it will go to extremes. It always happens that way in markets. So far, a lot of money has been made in LBOs. In the end a lot of money will be lost. ■

**Selling the whole pie**

**Since 1978 these 20 corporations have been acquired through leveraged buyouts.**

| Company/*business* | Buyout originator | Price (millions) |
|---|---|---|
| **Albany Intl**/*papermaking, fabrics* | Morgan Stanley | $270 |
| **Beverage Management**/*soft drinks* | Forstmann Little | 100 |
| **Cannon Mills**/*household textiles* | Pacific Holding | 405 |
| **Coca-Cola Bottling of Miami**/*soft drinks* | investors | 155 |
| **Coca-Cola Bottling of NY**/*soft drinks* | Gibbons, Green | 220 |
| **Congoleum**/*floor coverings* | First Boston | 460 |
| **Dan River**/*textiles* | Kelso & Co | 150 |
| **Dentsply Intl**/*dental, optical equip* | Kelso & Co | 115 |
| **Dillingham**/*maritime, constr, energy* | Kohlberg, Kravis | 350 |
| **Empire**/*liquefied petroleum gas distr* | Allen & Co | 115 |
| **Fred Meyer**/*food retailer, distributor* | Kohlberg, Kravis | 425 |
| **Marley**/*cooling towers* | Kohlberg, Kravis | 330 |
| **NI Inds**/*building products* | Kohlberg, Kravis | 420 |
| **Purex Inds**/*household cleaning prods* | Gibbons, Green | 390 |
| **Questor**/*infant feeding, seating equip* | DW Lufkin | 135 |
| **Raymond Intl**/*engineering, constr* | Kelso & Co | 155 |
| **Reeves Brothers**/*textile mfr* | Bankers Trust | 165 |
| **Reliance Group Holdings**/*fin svcs* | Saul Steinberg | 535 |
| **Signode**/*strapping sys fastener* | Merrill Lynch | 430 |
| **Williamhouse-Regency**/*stationery* | Carl Marks & Co | 115 |

*In London's financial markets, the panic is beginning. Fixed brokerage commissions are going and . . .*

# The colonials are coming

**By Marcia Berss**

DÉJÀ VU: The stock exchange abolishes the fixed commission. Brokers wail that the increased competition will force them to merge or fold. Research analysts financed by fixed commissions worry about what will support their activities. Everyone says that the firms with the deepest pockets will dominate the marketplace.

It's not 1975 in New York but 1983 in London, and the British brokers are sweating. The deepest pockets belong to the Yanks, and they just might overrun the London Stock Exchange and turn the corner of Throgmorton

*Nothing will open doors for you like an M.B.A. degree from a top school. Earning one is the quickest route to the fast track. Still, is it worth it?*

**Personal Affairs**

**Careers**

# What's an M.B.A. really worth?

**By Maria Fisher**

SHORT OF A Jr. after a name that is also on the headquarters building, they still say, no letters in the corporate world will do more for you than M.B.A. when it comes to starting salaries. A typical 1973 graduate of Harvard Business School started at $17,000, for example. Five years ago the figure had risen to $24,000. Last spring it stood at $38,000; that's a jump of about 200% in a decade. Ayse Manyas Kenmore, Stanford's placement director, says that she expects salary offers to run $70,000 to $80,000 from consulting firms for next spring's graduates.

Eighty thou to start? Doesn't it figure to get that M.B.A. at all costs, from as good a school as will have you? Well, it's no longer that simple. For some would-be world-beaters, the apparent value of an M.B.A. degree may be deceiving. Maybe the real cost is too high.

There are two reasons for this seeming paradox. First, most top schools now require "real world" experience before a student can even apply for admission. As a result, top-level undergrads who would normally go straight into graduate school first get a job. If they have potential, they will be moving up soon enough—without the M.B.A. Second, of course, is the substantial cost of attending school itself on top of the job income no longer coming in.

Look at the numbers. Suppose you are a bright young graduate of a top school—Harvard, for example. You want to go to the B-school, but you need to wait a year to apply. You keep your intentions to yourself and take a job with Happibank, starting at $25,000 per year. In six months you get a raise and a promotion, to $30,000, and you are on a fast track. Suddenly, the B-school beckons.

If you go off to school for two years, you will lose at least $60,000 in salary, not counting other raises and promotions that might have followed. Add to that about $35,000 out-of-pocket for room and board, tuition, etc. So your true cost for the M.B.A. could approach $100,000.

Upon graduation, of course, you could be able to command a starting salary of $50,000 or more. But where would you be if you had stayed with Happibank in the first place? (And, if Happibank really liked you, they might even have been willing to pay you to get more training, perhaps even an M.B.A. part time, while you were still on the payroll.) Your hard-won M.B.A. in hand, you are gambling that over the years your M.B.A. will generate far more than the $100,000 it cost you to get it.

But isn't the M.B.A. worth the most at the start of a career? After a year or two off the campus, you will be judged on performance, rather than on potential.

So, is the M.B.A. worth getting after all? Well, let's not get too hung up on numbers. Maybe two years in B-school will leave you knowing a good deal more than just what salary to expect upon graduation. ■

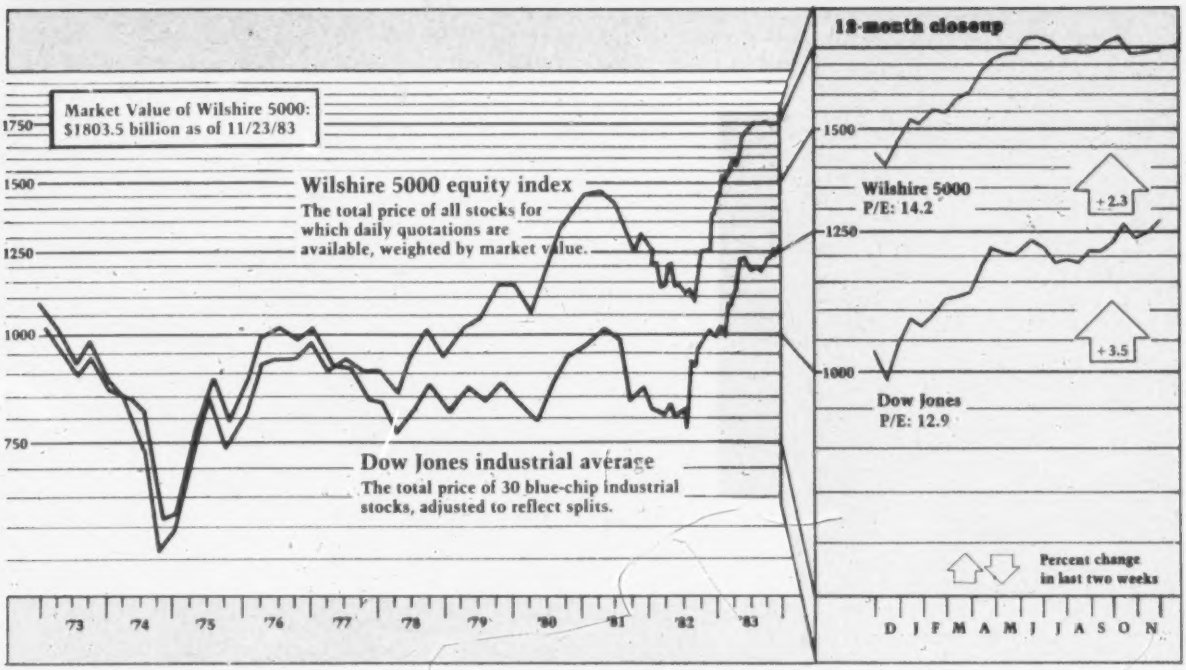
## Talk about opportunity costs!

**The market price on new M.B.A.s is rising as the effects of the recession fade. Here are current figures from 14 of the nation's better-known B-schools.**

| School | —Median starting salary— spring 1983 | spring 1978 | Applicants for admission 1983 | Number admitted fall 1983 | % men/ women | % with 1 or more years' work experience | Estimated annual expenses* |
|---|---|---|---|---|---|---|---|
| Carnegie-Mellon | $32,748 | $21,000 | 902 | 127 | 80%/20% | 60% | $15,025 |
| Chicago | 34,762 | 20,128 | 3,206 | 478 | 79/21 | 74 | 15,600 |
| Columbia | 34,534 | 21,841 | 2,947 | 464 | 67/33 | 80 | 14,040 |
| Dartmouth (Amos Tuck) | 35,000 | 22,100 | 1,700 | 140 | 76/24 | 92 | 17,000 |
| Harvard | 38,000E | 24,000 | 5,800 | 785 | 75/25 | 97 | 16,700 |
| MIT | 36,200 | 23,800M | 1,445 | 193 | 73/27 | 80 | 17,950 |
| Michigan | 29,400E | 20,178M | 1,631 | 362 | 72/28 | 50 | 8,874/12,538† |
| NYU | 30,600 | 19,700M | 1,932 | 370 | 59/41 | 83 | 15,352 |
| Northwestern | 31,100E | 20,100 | 3,043 | 450 | 67/33 | 83 | 16,200 |
| Pennsylvania (Wharton) | 37,854M | 21,890M | 3,400 | 610 | 72/28 | 97 | 16,000 |
| Stanford | 39,200E | 24,000 | 4,686 | 316 | 75/25 | 93 | 16,600 |
| Texas | 27,027M | 18,100E | 1,788 | 642 | 67/33 | under 15 | 5,610/6,900† |
| UCLA | 32,713M | 19,781 | 3,275 | 360 | 64/36 | 91 | 9,500/12,500† |
| Virginia | 33,000 | 21,500 | 1,344 | 241 | 75/25 | 95 | 8,436/11,576† |

*Includes tuition, room and board, fees, books and living expenses for a single student. †In-state student/out-of-state student. E: Estimate. M: Mean.

# The Forbes/Wilshire 5000 Review




**Shopping early.** After a slow autumn, Wall Street is coming alive. During the most recent two-week period there were two consecutive days in which volume on the Big Board exceeded 100 million shares. After all the dust settled, the NYSE was sitting on a 2.1% gain. But the blue chip Dow, buoyed by strong trading in soon-to-be-splintered AT&T, gained 3.5% during the same time. Investor enthusiasm also carried into secondary issues. The Amex posted a 2.8% gain, and the NASDAQ was up 5.1%. This is the best two-week performance for over-the-counter securities since the end of 1982. It could indicate a break in NASDAQ's long run of profit-taking and panic-selling.

After weeks of seeking shelter in defensive stocks, investors now show some interest in the recently battered high-volatility stocks, which outperformed low-volatility shares by a more than 2-to-1 margin. On the other hand, low-growth issues did better than high-growth issues. The fact that the action was heavy and spread over two different parts of the market indicates that year-end bargain hunters were out in force.

## Close-up On The Equity Markets

**Performance of six leading indexes**

| Percent change | Wilshire 5000 | Forbes 500[1] | Dow Jones industrials | NYSE Composite | Amex Market Value Index | NASDAQ Composite |
|---|---|---|---|---|---|---|
| in last 4 weeks | 1.2 | 0.8 | 2.6 | 1.0 | 2.9 | 2.5 |
| in last 52 weeks | 25.3 | 24.4 | 27.6 | 24.2 | 34.9 | 25.5 |

**Stock performance based on five key investor yardsticks**

| Percent change | Company size | | Volatility[2] | | P/E multiple | | Dividend yield | | Growth profile[3] | | Share price | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | large | small | high | low | over 25 | under 5 | over 7.5% | none | high | low | over $40 | under $4 |
| in last 4 weeks | 1.9 | 2.1 | 2.9 | 1.3 | 1.9 | 3.0 | 0.8 | 2.7 | 0.8 | 2.0 | 2.3 | -0.2 |
| in last 52 weeks | 26.6 | 76.2 | 62.6 | 34.9 | 42.0 | 71.9 | 31.6 | 68.5 | 68.4 | 34.0 | 36.0 | 64.3 |

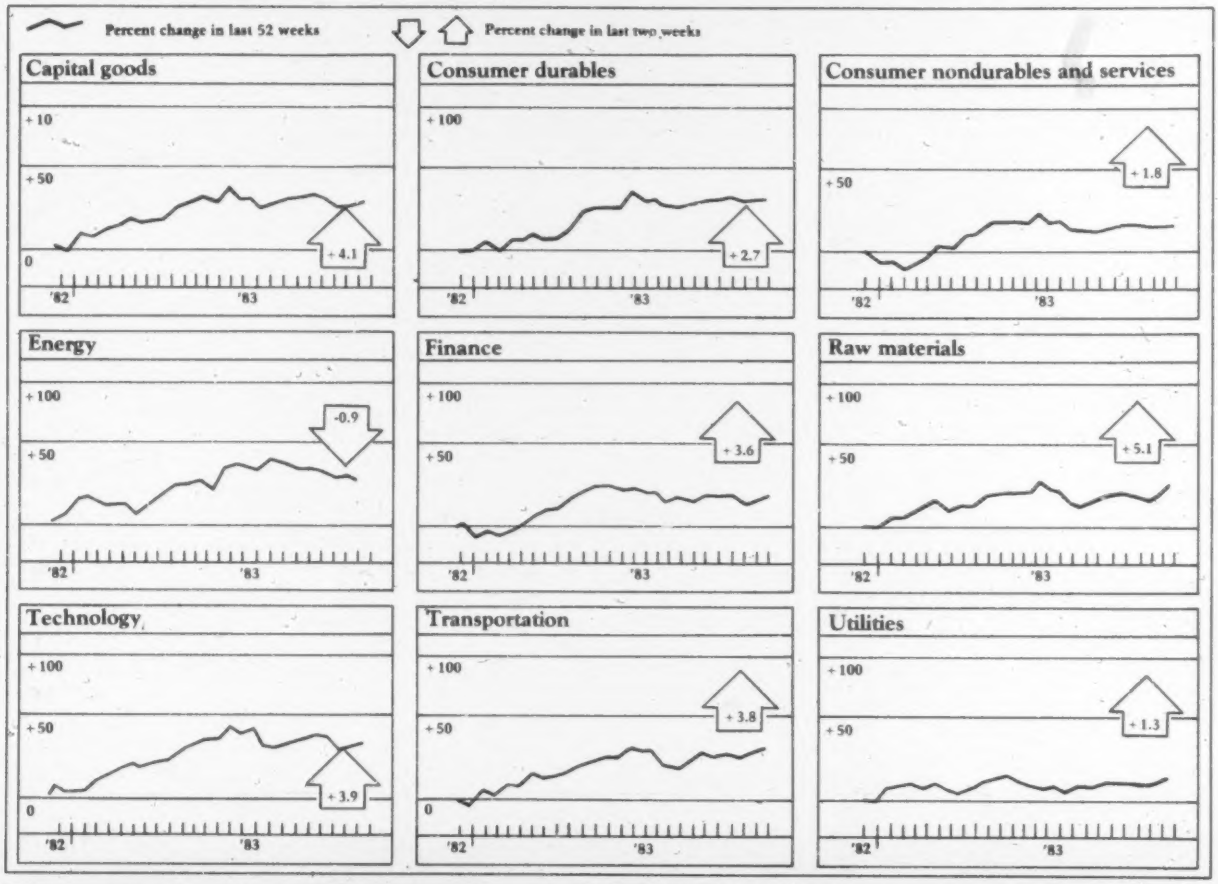
[1]Based on sales.
[2]A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations, low-volatility issues are more stable.
[3]A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

Note: All data for periods ending 11/23/83. Prepared by Wilshire Associates, Santa Monica, Calif.

## Where The Action Is

**Expecting a breakout?** The market showed good underlying strength, with recovery spilling over from the continuing strong retailing and service stocks to previously neglected capital goods and natural resource stocks. Over the most recent two weeks raw materials issues gained 5.1%, and capital goods stocks were up 4.1%.

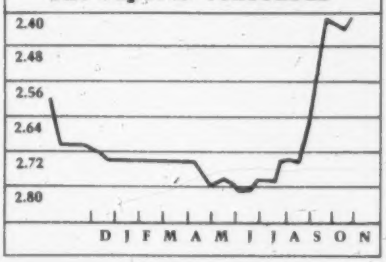
Technology shares, meanwhile, continued their recovery with a 3.9% gain. The finance, transportation and consumer durables groups also registered impressive gains. Only energy shares lost ground. The rally in the oils that began earlier in the year has faded. But with so many groups strong, the overall market has a healthy tone and seems in an excellent position to test its old highs shortly after year-end, if not before.




## What The Analysts Think

**Keeping the lights on.** Energy stocks, the only group to lose ground in the market over the last two weeks, advanced from eighth to seventh in analyst buy/sell rankings. Utilities, the second-poorest performing group, remain in first place. Meanwhile, the analysts dropped market-leading capital goods from sixth to eighth place.

**The experts' consensus**




| Rank | Sector | Current opinion | Rank 2 weeks ago | Rank 4 weeks ago |
|---|---|---|---|---|
| 1 | Utilities | 1.83 | 1 | 1 |
| 2 | Consumer durables | 2.24 | 2 | 2 |
| 3 | Raw materials | 2.35 | 3 | 3 |
| 4 | Transportation | 2.36 | 4 | 4 |
| 5 | Technology | 2.39 | 5 | 5 |
| 6 | Consumer nondurables | 2.55 | 7 | 6 |
| 7 | Energy | 2.58 | 8 | 8 |
| 8 | Capital goods | 2.62 | 6 | 7 |
| 9 | Finance | 2.86 | 9 | 9 |

Opinion ratings are ranked on a scale of 1 (strong buy) to 5 (strong sell). Data reflect the views of 200 institutional analysts. The consensus of opinion graph is the composite rating of 1,200 stocks, while the sector breakdowns correspond to industry groups graphed above. All figures are weighted for market capitalization.

Note: All data for periods ending 11/23/83. Prepared by Wilshire Associates, Santa Monica, Calif.